

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Ann Arbor Transportation Authority	County Washenaw
Fiscal Year End 9/30/2007	Opinion Date March 11, 2008	Date Audit Report Submitted to State March 13, 2008	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

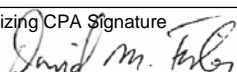
YES  
NO

**Check each applicable box below.** (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>			
Other (Describe)	<input checked="" type="checkbox"/>	Single Audit Reports		
Certified Public Accountant (Firm Name) Rehmann Robson		Telephone Number 517-787-6503		
Street Address 675 Robinson Road		City Jackson	State Mi	Zip 49203
Authorizing CPA Signature 		Printed Name David M. Fisher, CPA		License Number 10337

# ***Ann Arbor Transportation Authority***

*Financial Statements as of and for the  
Years Ended September 30, 2007 and 2006 and  
Additional Information for the Year Ended  
September 30, 2007, Independent Auditors' Reports  
Required by the Office of Management and Budget  
Circular A-133 and Supplemental Schedule of  
Expenditures of Federal Awards for the  
Year Ended September 30, 2007, and  
Independent Auditors' Reports*



**REHMANN ROBSON**

*Certified Public Accountants*

# ANN ARBOR TRANSPORTATION AUTHORITY

## TABLE OF CONTENTS

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	Page
INDEPENDENT AUDITORS' REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS (Required Supplementary Information)	2-5
FINANCIAL STATEMENTS FOR THE YEARS ENDED SEPTEMBER 30, 2007 AND 2006:	
Balance Sheets	6
Statements of Revenues, Expenses and Changes in Net Assets	7
Statements of Cash Flows	8-9
Notes to Financial Statements	10-20
REQUIRED GASB STATEMENT 45 SUPPLEMENTARY INFORMATION	
Schedule of Funding Progress for Retired Employees Healthcare Plan	21
INDEPENDENT AUDITORS' REPORT ON ADDITIONAL INFORMATION	22
ADDITIONAL INFORMATION FOR THE YEAR ENDED SEPTEMBER 30, 2007:	
Schedule of Revenues	23
Schedule of Operating Expenses	24
Schedule of Federal and State Interest in Capital Assets	25
Schedule of Expenditures of Federal and State Awards	26
Schedule of Operating and Contract Expenses	27
Schedule of Urban Regular Service Revenues	28
Schedule of Urban Regular Service Expenses	29
Schedule of Regular Service Nonfinancial Information (Unaudited)	30
Schedule of Nonurban Regular Service Revenues	31
Schedule of Nonurban Regular Service Expenses	32
Schedule of Regular Service Nonfinancial Information (Unaudited)	33
Schedule of Operating Assistance Calculation	34
Notes to Schedule of Operating Assistance Calculation	35
Comments and Recommendations – Statutory Compliance	36

SINGLE AUDIT:

Supplemental Schedule of Expenditures of Federal Awards	37
INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	38-39
INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO A MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133	40-41
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	42-43
MANAGEMENT'S CORRECTIVE ACTION PLAN	44
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS	45



# REHMANN ROBSON

*Certified Public Accountants*

A member of THE REHMANN GROUP



## INDEPENDENT AUDITORS' REPORT

March 11, 2008

To the Members of the Board of Directors of  
Ann Arbor Transportation Authority  
Ann Arbor, Michigan

We have audited the accompanying basic financial statements of Ann Arbor Transportation Authority (the "Authority") as of and for the years ended September 30, 2007 and 2006, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Ann Arbor Transportation Authority as of September 30, 2007 and 2006, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our reported dated March 11, 2008 on our consideration of Ann Arbor Transportation Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis and the Governmental Accounting Standards Board Statement #45 "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions" Supplementary Information are not required parts of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The information contained in the Schedule of Expenditures of Federal Awards, as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Ann Arbor Transportation Authority. Such information has been subjected to the auditing procedures applied in the audit of the 2007 basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the 2007 basic financial statements taken as a whole.

# **ANN ARBOR TRANSPORTATION AUTHORITY**

## **MANAGEMENT DISCUSSION AND ANALYSIS YEARS ENDED September 30, 2007 and 2006**

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As management of the Ann Arbor Transportation Authority (the “Authority”) in Ann Arbor, Michigan, we offer readers of the Authority’s financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal year ended September 30, 2007. We encourage readers to consider the information in conjunction with the financial statements, related footnote disclosures and the required supplementary and additional information as listed in the table of contents.

### **Overview of the Financial Statements and Financial Analysis**

The discussion is intended to present an overview of the Authority’s financial performance for the years ended September 30, 2007 and 2006 and does not purport to make any statement regarding the future operations of the organization. While the Authority is an instrumentality of the State of Michigan, it is not a component of the State as defined by the Governmental Accounting Standards Board (GASB).

The annual report consists of the basic financial statements, which are the balance sheet, statement of revenues, expenses and changes in net assets, and the statement of cash flows, prepared in accordance with GASB principles. This report also contains other supplementary information in addition to the basic financial statements, as required by the GASB and the State of Michigan Departments of Treasury and Transportation.

The basic financial statements for the year ended September 30, 2006 have been audited and are included herein for comparative purposes.

### **Financial Highlights**

The Authority’s total assets decreased from the prior year by \$464,000 (1.1%), primarily due to a decrease in net capital assets as depreciation expense was greater than capital assets purchased during the year.

Cash and investments decreased by \$548,000 (3.3%) due to many factors, including the acquisition of \$715,000 in equipment, \$484,500 decrease in grants refunds payable and \$1,631,000 increase in grant receivables.

Total net assets decreased by \$1,651,000, primarily because net assets - invested in capital assets decreased as depreciation expense was greater than the purchase of new capital assets. Unrestricted net assets increased by \$500,000.

Current liabilities increased by \$322,000 (3.6%) due to the \$682,500 increase in unearned revenue for the property tax levy and unrealized gains on the heating oil futures account. These increases are offset by the decrease of grants payable of \$485,000 from the payback of overpayment in the prior years’ State of Michigan Formula Operating Assistance.

Total expenses increased \$799,000 (3.1%) primarily due to the increase in purchased transportation, fuel and lubricants and medical insurance. Purchased transportation increased by \$418,000 from the increased demand for ARide services. Fuel and lubricants increased \$97,600 from prior year due to the higher price per gallon for ultra-low sulfur biodiesel fuel. Medical insurance increased \$90,000 due to higher monthly premiums.

## Balance Sheets

The balance sheets include all assets and liabilities. It is prepared under the “full accrual” basis of accounting, whereby revenues and assets are recognized when the service is provided and expenses and liabilities are recognized when they occur, regardless of the timing of the related cash flows. Assets and liabilities are measured using the economic resources measurement focus. Capital assets are reported at historical cost less an allowance for depreciation.

A summary of the Authority’s assets, liabilities and net assets at September 30, 2007 and 2006 follows (in thousands):

	2007	2006
Assets:		
Current assets	\$20,906	\$19,218
Capital assets, net	<u>19,626</u>	<u>21,778</u>
<b>Total assets</b>	<b><u>\$40,532</u></b>	<b><u>\$40,996</u></b>
Liabilities:		
Current liabilities	\$ 9,365	\$ 9,043
Noncurrent liabilities	<u>1,714</u>	<u>849</u>
<b>Total liabilities</b>	<b>11,079</b>	<b>9,892</b>
Net Assets:		
Invested in capital assets	19,626	21,778
Unrestricted	<u>9,827</u>	<u>9,326</u>
<b>Total net assets</b>	<b><u>29,453</u></b>	<b><u>31,104</u></b>
<b>Total liabilities and net assets</b>	<b><u>\$40,532</u></b>	<b><u>\$40,996</u></b>

At September 30, 2007, the Authority’s total assets were \$40.53 million, compared to \$41.00 million at September 30 2006. The Authority’s largest capital investments include buses and related equipment, net of depreciation, of \$8.3 million in 2007 and \$9.5 million in 2006 and the land and buildings, net of depreciation, of \$10.1 million in 2007 and \$10.6 million in 2006.

The majority of the Authority’s current liabilities are unearned revenue (\$7.54 million in 2007 and \$6.85 million in 2006), which primarily is 75% (nine of twelve months) of the tax levied on the property in the City of Ann Arbor on July 1, 2007. The original property tax levy, approved by the voters in the City of Ann Arbor, Michigan, was 2.5 mills. However, the property tax levy is subject to the Headlee Amendment to the State of Michigan Constitution and has decreased in recent years to its current 2.056 mills. The majority of the 2007 tax levy has been collected and the deferred revenue represents the portion that will be used to help fund operations from October 1, 2007 to June 30, 2008.

The Authority has implemented early the provisions of the Governmental Accounting Standards Board (GASB) Statement #45, “Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pension” during 2006 instead of waiting until it is required in fiscal year 2009. This Standard requires the Authority to recognize the expense related to these health care and life insurance benefits on an actuarially determined basis, to better match the expense of the benefits with the period in which employees earn the benefit instead of a “pay as you go” basis. The unfunded actuarial accrued liability was \$11,339,000 and \$10,482,000 as of September 30, 2007 and 2006, respectively.

From 1991 through 2005, the Authority had already recorded postemployment medical benefits obligation of \$3,769,000 under the provisions of the Financial Accounting Standards Board (FASB) #106, "Employers' Accounting for Postretirement Benefits Other Than Pensions." However, under GASB #45, only the amount of the annual required contribution not paid since the adoption of GASB #45 is recorded as a liability (\$1,714,000 and \$849,000 as of September 30, 2007 and 2006, respectively). Therefore, the previously recorded liability of \$3,769,000 as of September 30, 2005 was eliminated and reclassified into unrestricted net assets.

At September 30, 2007, the Authority had outstanding commitments relating to the purchase of 19 hybrid diesel electric buses for \$10.4 million with deliveries in October 2007 (14) and February 2008 (5). Funding for the buses is through Federal capital grants (\$8.3 million), and State capital grants (\$2.1 million).

The total assets of the Authority exceeded its total liabilities by \$29,453,000 (net assets) as of September 30, 2007. Of this amount, \$9,827,000 (unrestricted net assets) may be used to fund future operations and meet future obligations of the Authority.

### **Statement of Revenues, Expenses, and Changes in Net Assets**

A summary of the Authority's revenues, expenses and changes in net assets for the year ended September 30, 2007 and 2006 follows (in \$1,000s):

	<b>2007</b>	<b>2006</b>
Operating revenues	\$ 3,518	\$ 3,328
Operating expenses	<u>(26,215)</u>	<u>(25,416)</u>
Operating loss	(22,697)	(22,088)
Non-operating revenues	<u>20,403</u>	<u>19,367</u>
Change in net assets before capital contributions	(2,294)	(2,721)
Net Capital contributions	<u>643</u>	<u>886</u>
Change in net assets	(1,651)	(1,835)
Net assets, beginning of year	<u>31,104</u>	<u>32,939</u>
<b>Net assets, end of year</b>	<b><u>\$29,453</u></b>	<b><u>\$31,104</u></b>

The Authority's primary sources of operating revenues are passenger fares collected in the farebox in each bus, sales of 30-day passes and tokens. Other operating revenues are special fares where someone else other than the rider pays the fare, such as the go!pass program paid by the Downtown Development Authority of the City of Ann Arbor and MRide program paid by the University of Michigan.

Total operating expenses of \$26,215,000 include operations (\$17,161,000), vehicle and facility maintenance (\$4,372,000) and general administration (\$4,682,000). The largest portion of all expenses is for employee wages and fringe benefits of \$13,823,000 or 52.7% of all expenses.

Non-operating revenues include Federal, State and local operating assistance. The property tax revenue increased \$750,000 (8.6%) due to the increase in the taxable value of property in the City of Ann Arbor and the additional revenue from the reconciliation of the previous three years' property tax levies. State revenues increased \$98,000 (1.4%). The State of Michigan Department of Transportation is not allowed to fund the Authority at an amount lower than the "1997 Floor," which is \$6,317,122. Federal revenue decreased \$14,600 (0.6%).



Capital contributions represent Federal and State grants for the purchase of new capital assets. In 2007, the Authority purchased a hybrid diesel-electric bus for \$547,000. In 2006, the Authority purchased a comprehensive maintenance, purchasing and inventory software program for \$787,000. The purchase of the bus was funded by Federal (\$437,000) and State (\$109,000) capital grants. Most of the funds for capital assets are provided through Federal formula grants (Section 5307) administered by the Federal Transportation Administration. A portion of these Federal formula dollars can be used as operating assistance. In 2007 and 2006, the Authority used \$2,076,000 and \$2,104,000, respectively for operating assistance, such as preventive maintenance, planning and capital cost of contracting. During 2007, the Authority received four used buses from Milan Transit, a department of the City of Milan, Michigan, which ceased operations. These buses were recorded at their net book value of \$43,000, which is their remaining Federal and state interest, and subsequently leased them to Northfield's Human Services (People's Express) to provide Specialized Services.

### **Notes to the Financial Statements**

The notes provide additional information that is essential to a full understanding of the information provided in the basic financial statements.

### **Economic Factors and Next Year's Budget (Fiscal Year 2008)**

The Authority receives significant operating assistance each year from the State of Michigan Comprehensive Transportation Fund. The source of these funds includes a portion of state gasoline taxes, vehicle related sales taxes, license fees and other taxes and fees. These funds are subject to legislative appropriation each year and the percentage of eligible expenses funded is subject to change during the year and subject to reconciliation and audit after the year has concluded. These funds are also subject to a "floor" amount equal to the formula operating assistance received in fiscal year 1997 (\$6,317,122). The poor economy in the State of Michigan and the elimination of the Single Business Tax has reduced the total amount of funds available in the State Operating Budget.

For fiscal year 2008, the Board of Directors adopted a balanced budget with a projected surplus of \$10,000. However, the labor agreement with the Transit Workers Union Local #171 (Union) has not been settled. The previous five-year agreement expired on June 30, 2007 and has been extended under the same terms and wage rates. The fiscal year 2008 budget assumes wage rates, medical insurance and other fringe benefits as outlined in the best and final offer presented to the Union on July 6, 2007. The labor agreement covers \$10,760,000 in employee wages and fringe benefit expenses, which amounts to 44.4% of the adopted fiscal year 2008 budget. The budget projection for fiscal year 2008 shows a deficit of \$282,000, based on the settled labor agreement and other known facts as of the report date.

The Authority also receives significant funding through the property tax levy on the citizens of the City of Ann Arbor. This amount has been increasing by 4.0% to 5.0% annually for the past 5 years and appears to be growing into the future. However, during fiscal year 2007, Pfizer, the largest property taxpayer in the City of Ann Arbor closed their Ann Arbor facility, which employed 2,100.

### **Request for Information**

This financial report is designed to provide a general overview of the Authority's finances for all those with an interest in the transit provider's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Controller/CFO, Ann Arbor Transportation Authority, 2700 South Industrial Highway, Ann Arbor, Michigan 48104.

# ANN ARBOR TRANSPORTATION AUTHORITY

## BALANCE SHEETS

SEPTEMBER 30, 2007 AND 2006

ASSETS	2007	2006
CURRENT ASSETS:		
Cash (Note 2)	\$ 8,103,610	\$ 4,762,431
Investments (Note 2)	7,842,233	11,731,788
Accounts receivable, less allowance of \$0 in 2007 and 2006	479,073	220,172
Grants receivable (Note 3)	2,345,514	714,134
Other receivables (Note 4)	580,053	410,702
Inventory	727,368	630,165
Prepaid expenses	827,874	748,964
Total current assets	20,905,725	19,218,356
CAPITAL ASSETS: (Note 5)		
Land and improvements	2,180,821	2,180,821
Park and Ride lot construction	1,494,008	1,494,008
Buildings and improvements	16,262,345	16,177,803
Equipment and other (Note 13)	29,278,869	28,750,875
Total capital assets	49,216,043	48,603,507
Less accumulated depreciation	29,589,435	26,825,559
Net capital assets	19,626,608	21,777,948
TOTAL ASSETS	\$ 40,532,333	\$ 40,996,304
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	\$ 535,912	\$ 437,057
Grant refunds payable (Note 3)	50,232	534,784
Accrued payroll	370,884	355,311
Other accrued expenses	871,000	861,458
Unearned revenue (Note 6)	7,537,120	6,854,613
Total current liabilities	9,365,148	9,043,223
CONTINGENCIES (Note 8)		
POST-RETIREMENT BENEFIT OBLIGATION (Note 12)	1,713,963	848,931
Total liabilities	11,079,111	9,892,154
NET ASSETS:		
Invested in capital assets	19,626,608	21,777,948
Unrestricted	9,826,614	9,326,202
Total net assets	29,453,222	31,104,150
TOTAL LIABILITIES AND NET ASSETS	\$ 40,532,333	\$ 40,996,304

See notes to financial statements.

# ANN ARBOR TRANSPORTATION AUTHORITY

## STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS YEARS ENDED SEPTEMBER 30, 2007 AND 2006

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	2007	2006
OPERATING REVENUES (Note 9)	\$ 3,517,703	\$ 3,327,994
OPERATING EXPENSES (Notes 7, 9 and 12):		
Operations	17,160,775	16,459,213
Maintenance	4,371,830	4,566,523
General administration	<u>4,682,322</u>	<u>4,390,406</u>
Total operating expenses	<u>26,214,927</u>	<u>25,416,142</u>
OPERATING LOSS	<u>(22,697,224)</u>	<u>(22,088,148)</u>
NONOPERATING REVENUES:		
Local	10,954,961	10,002,425
State	7,085,233	6,987,262
Federal	<u>2,362,530</u>	<u>2,377,112</u>
Total nonoperating revenues	<u>20,402,724</u>	<u>19,366,799</u>
CHANGE IN NET ASSETS BEFORE CAPITAL CONTRIBUTIONS	(2,294,500)	(2,721,349)
CAPITAL CONTRIBUTIONS	687,784	985,808
TRANSFER OF CAPITAL ASSETS (Note 13)	<u>(44,212)</u>	<u>(99,649)</u>
CHANGE IN NET ASSETS	(1,650,928)	(1,835,190)
TOTAL NET ASSETS, BEGINNING OF YEAR	<u>31,104,150</u>	<u>32,939,340</u>
TOTAL NET ASSETS, END OF YEAR	<u>\$ 29,453,222</u>	<u>\$ 31,104,150</u>
UNRESTRICTED NET ASSETS, END OF YEAR	<u>\$ 9,826,614</u>	<u>\$ 9,326,202</u>

See notes to financial statements.

# ANN ARBOR TRANSPORTATION AUTHORITY

## STATEMENTS OF CASH FLOWS

YEARS ENDED SEPTEMBER 30, 2007 AND 2006

	2007	2006
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from transit operations	\$ 2,528,951	\$ 2,834,662
Payments for salaries and wages and fringe benefits	(12,849,348)	(12,504,780)
Payments to suppliers	(5,402,432)	(5,413,042)
Payments for claims and insurance	(421,116)	(468,682)
Payments for purchased transportation	(3,101,788)	(2,775,666)
Net cash used in operating activities	<u>(19,245,733)</u>	<u>(18,327,508)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Nonoperating revenue:		
Local	10,571,315	12,192,941
State	6,283,104	5,991,571
Federal	<u>1,441,635</u>	<u>1,971,404</u>
Net cash provided by noncapital financing activities	<u>18,296,054</u>	<u>20,155,916</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Acquisition and construction of capital assets	(715,042)	(883,420)
Capital contributed by state and federal grants	294,876	1,021,524
Proceeds from sale of equipment and insurance claims	<u>116,135</u>	<u>5,621</u>
Net cash provided by (used in) capital and related financing activities	<u>(304,031)</u>	<u>143,725</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of investment securities	(6,573,883)	(20,709,115)
Proceeds from sale and maturities of investment securities	10,463,438	21,887,696
Interest income	<u>705,334</u>	<u>469,482</u>
Net cash provided by investing activities	<u>4,594,889</u>	<u>1,648,063</u>
<b>NET INCREASE IN CASH</b>	3,341,179	3,620,196
<b>CASH AT BEGINNING OF YEAR</b>	<u>4,762,431</u>	<u>1,142,235</u>
<b>CASH AT END OF YEAR</b>	<u>\$ 8,103,610</u>	<u>\$ 4,762,431</u>

See notes to financial statements.

# ANN ARBOR TRANSPORTATION AUTHORITY

## STATEMENTS OF CASH FLOWS (Continued) YEARS ENDED SEPTEMBER 30, 2007 AND 2006

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	2007	2006
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating loss	\$ (22,697,224)	\$ (22,088,148)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	2,822,183	2,859,850
Changes in assets and liabilities which (used) provided cash:		
Receivables	(170,865)	236,256
Inventory	(97,203)	5,156
Prepaid expenses	(78,910)	(194,248)
Payables	86,139	(98,965)
Accrued payroll	15,573	4,547
Other accrued expenses	874,574	948,044
Total adjustments	<u>3,451,491</u>	<u>3,760,640</u>
NET CASH USED IN OPERATING ACTIVITIES	<u>\$ (19,245,733)</u>	<u>\$ (18,327,508)</u>

See notes to financial statements.

# ANN ARBOR TRANSPORTATION AUTHORITY

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED September 30, 2007 and 2006

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### 1. NATURE OF THE ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

#### **Nature of the Organization**

The Ann Arbor Transportation Authority (the "Authority") is a governmental unit established under statutes of the State of Michigan to provide a mass transportation system within and beyond the corporate limits of the City of Ann Arbor.

The Authority is not included in the financial reporting entity of the City of Ann Arbor because the City does not have the ability to exercise significant oversight over the Authority. The Authority can independently generate revenue, adopt budgets and borrow funds. The members of the governing Board of Directors are appointed by the mayor of the City and confirmed by the City Council.

#### **Significant Accounting Policies**

***Basis of Accounting*** - In accordance with Governmental Accounting Standards Board (GASB) No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting*, the Authority applies all applicable GASB pronouncements as well as all Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARB) issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

***Investments*** are held primarily in certificates of deposit and in three pooled municipal investment trust funds. These trust funds consist of certificates of deposit, United States Treasury securities, repurchase agreements and commercial paper.

***Revenues, Capital Grant Contributions and Unearned Revenue*** - Revenues are classified as operating and nonoperating revenues and capital contributions. Operating revenues include activities that have the characteristics of exchange transactions, such as passenger fares and special transit fares. Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as Federal and State operating grants, City of Ann Arbor tax levies, fees paid by other municipalities under purchase of service agreements, and interest income. Capital contributions are Federal and State grants designated for the purchase and/or construction of land, buildings and equipment and are recognized as revenue and are included in the statement of revenues, expenses and changes in net assets.

The Authority recognizes as revenue only that portion of the City of Ann Arbor's tax levy for transit services which is attributable to the Authority's fiscal year. Accordingly, only one quarter of the tax levy and the inventory replacement tax for the period July 1 to June 30 is included as nonoperating revenues in the accompanying statements of revenues, expenses and net assets. The balance of the tax levy is recorded as unearned revenue. (See Note 6).

***Derivative Financial Instruments*** – The Authority periodically enters into heating oil contracts to manage a portion of the exposure to fluctuating diesel prices. Changes in the price of heating oil contracts have a high correlation to changes in the price of biodiesel fuel. These derivative financial instruments, which inherently contain market risk, are generally effective in reducing fluctuation in diesel fuel prices. The market risk is the potential adverse effect on the value of heating oil contracts that results from a change in heating oil prices. The Authority does not enter into fuel hedge contracts for trading or speculative purposes.

The Authority records the fair market value of the fuel hedge contracts in Investments. The resulting realized gains and losses are recorded as Other Revenue, under Local Nonoperating Revenue in the Statement of Revenues, Expenses and changes in Net Assets. The unrealized gains and losses are recorded as unearned revenue in the Balance Sheet. (See Note 6).

***Vacation and Sick Pay*** - The Authority records expense for vacation and sick pay benefits when earned by the employees. The accrual for unused vacation and sick leave is reported as a current liability because there is no limit on how many earned vacation and sick days an employee can use in a year.

***Inventory*** is stated at the lower of cost (first-in, first-out basis) or market.

***Statement of Cash Flows*** – For purposes of this statement, the Authority considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

***Capital Assets*** – Capital assets, which include land, buildings, vehicles and other equipment are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Depreciation is computed using the straight-line method based on the estimated useful lives of 20 to 30 years for land improvements, of 6 to 30 years for buildings and improvements and of 3 to 12 years for equipment. Eligible depreciation expense includes only the depreciation of assets purchased with local funds and where the useful life of the asset purchased has been approved by the State of Michigan Department of Transportation Bureau of Passenger Transportation.

***Net Assets*** are displayed in two components as follows:

*Invested in Capital Assets* – This consists of capital assets, net of accumulated depreciation.

*Unrestricted* – This consists of net assets that do not meet the definition of “invested in capital assets.”

***Use of Estimates*** - The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

***Reclassifications*** – Certain amounts from the prior year have been reclassified to conform to the current year presentation.

## 2. CASH AND INVESTMENTS

The following is a reconciliation of deposit and investment balances as of September 30, 2007 and 2006:

Balance Sheet:	2007	2006
Cash	\$ 8,103,610	\$ 4,762,431
Investments	<u>7,842,233</u>	<u>11,731,788</u>
<b>Total</b>	<b><u>\$ 15,945,843</u></b>	<b><u>\$16,494,219</u></b>

	2007	2006
<b>Deposits and Investments:</b>		
Bank deposits (checking, savings and certificates of deposit)	\$12,096,905	\$13,108,294
Investment in government liquid asset fund accounts	3,550,690	3,379,055
Heating Oil Futures Account	291,378	0
Cash on hand	<u>6,870</u>	<u>6,870</u>
<b>Total</b>	<b><u>\$15,945,843</u></b>	<b><u>\$ 16,494,219</u></b>

State statutes authorize the government to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations, and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers' acceptances, and mutual funds composed of otherwise legal investments.

**Investments** – In addition to the State restrictions noted above, the Authority's policy is to limit investments to the following:

- Certificates of deposit, depository receipts, and repurchases agreements (covered by direct obligations of the United States Treasury) with any financial institution that maintains a principal office or branch office located in the State of Michigan. The total investment (exclusive of checking accounts) in any financial institutions shall not exceed the lesser of twenty percent of that financial institution's capital and surplus or \$4,000,000.
- Bonds and other direct obligations of the United States or any agency thereof with a maturity of three years or less.
- Top rated commercial paper of corporations, acquired through the bidding process or through the secondary market with a maturity not more than 270 days after the date of purchase. Not more than \$500,000 may be invested in a single corporation.
- Governmental mutual funds which invest only in authorized investments for local units of government under state law and which offer daily liquidity.



The Authority chooses to disclose its investments by specifically identifying each. As of September 30, 2007, the Authority had the following investments.

<u>Investment</u>	<u>Maturity</u>	<u>Interest Rate</u>	<u>Fair Value</u>	<u>Rating</u>
Government Liquid Assets Funds	N/A	Various	\$ 3,524,067	Not rated
JP Morgan Chase Money Market Fund	N/A	4.74%	13,269	Moody's AAA
Comerica Money Market Fund	N/A	4.90%	<u>13,354</u>	Moody's A1P1F1
			<b><u>\$ 3,550,690</u></b>	

### **Investment and deposit risk**

*Interest Rate Risk.* State law limits the allowable investments and the maturities of some of the allowable investments as identified in the list of investments above. The Authority's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates, except as noted in the Authority's investment policy above.

*Credit Risk.* State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments above. The Authority's investment policy does not have specific limits in excess of state law on investment credit risk. The ratings for each investment are identified above for investments held at September 30, 2007.

*Custodial Credit Risk – Deposits.* Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned. State law does not require and the Authority does not have a policy for deposit custodial credit risk. As of September 30, 2007, \$11,837,371 of the Authority's bank balance of \$12,337,372 was exposed to custodial credit risk because it was uninsured and uncollateralized.

*Custodial Credit Risk – Investments.* For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments of collateral securities that are in the possession of an outside party. State law does not require and the Authority does not have a policy for investment custodial credit risk. As of September 30, 2007, none of the Authority's investments were exposed to custodial credit risk since the securities are held in the Authority's name by the counterparty.

*Concentration of Credit Risk.* State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments above. The Authority's investment policy limits investments as described above.

### 3. GRANTS RECEIVABLE/GRANT REFUNDS PAYABLE

The Authority recognizes a receivable under approved grants as related project expenditures are incurred and the grant revenue earned. Grant refunds payable represent amounts to be returned to the grantor. The following grant amounts were outstanding at September 30:

	2007	2006
Michigan Department of Transportation:		
Buses and related equipment		
Rideshare program	\$ 60,152	\$ 19,040
Operating assistance	236,756	(518,655)
Planning		16,800
Specialized services	22,453	
Transportation to Work (formerly Project Zero)		47
Buses and related equipment	107,599	-
Computer hardware and software		33,270
Park and ride lot improvements		1,600
Rail study	(2,700)	(2,700)
Federal Transit Administration:		
Buses and related equipment	437,373	8,894
Planning	154,748	79,315
Nonrevenue vehicle	21,539	-
Preventive maintenance	1,245,462	400,000
Computer hardware and software	11,900	135,339
Park and ride lot improvements	-	6,400
NET GRANTS RECEIVABLE (REFUNDS PAYABLE)	<u>\$ 2,295,282</u>	<u>\$ 179,350</u>
REMAINING UNEARNED BALANCES ON ABOVE		
GRANTS	<u>\$17,131,810</u>	<u>\$ 5,358,494</u>

The grants receivable/grant refunds payable are reported on the balance sheets as follows:

	2007	2006
Grants receivable	\$ 2,345,514	\$ 714,134
Grant refunds payable	<u>(50,232)</u>	<u>(534,784)</u>
Net grants receivable	<u>\$ 2,295,282</u>	<u>\$ 179,350</u>

#### 4. OTHER RECEIVABLES

Other receivables consist of the following amounts:

	2007	2006
City of Ann Arbor - tax levy	\$ 466,585	\$ 145,590
City of Ann Arbor - inventory replacement tax	74,574	74,574
Interest receivable	38,894	102,502
Workers' compensation insurance refund	0	88,036
Total	<u>\$ 580,053</u>	<u>\$ 410,702</u>

#### 5. CAPITAL ASSETS

Capital asset activity during the fiscal year ended September 30, 2007 is as follows:

	Balance October 1 2006	Additions	Deletions	Balance September 30 2007
Capital assets not being depreciated:				
Land and improvements	\$ 2,180,821	\$ -	\$ -	\$ 2,180,821
Capital assets being depreciated:				
Park and ride lot construction	1,494,007			1,494,007
Buildings	16,177,803	84,542		16,262,345
Vehicles and related equipment	20,699,232	629,073	145,767	21,182,538
Radio and telephone systems	203,594			203,594
Fare collection equipment	1,003,900			1,003,900
Maintenance equipment	505,405			505,405
Office equipment and furniture	2,141,587	31,972		2,173,559
Passenger shelters	762,217			762,217
Other	187,250	-		187,250
Advanced operating system	3,247,691	12,716	-	3,260,407
Total capital assets being depreciated	<u>46,422,686</u>	<u>758,303</u>	<u>145,767</u>	<u>47,035,222</u>
Less accumulated depreciation:				
Park and ride lot construction	518,680	77,345		596,025
Buildings	8,681,232	587,097		9,268,329
Vehicles and related equipment	11,832,213	1,587,253	58,307	13,361,159
Radio and telephone systems	161,212	12,009		173,221
Fare collection equipment	554,669	83,929		638,598
Maintenance equipment	345,361	41,249		386,610
Office equipment and furniture	1,020,484	312,798		1,333,282
Passenger shelters	429,026	58,021		487,047
Other	180,587	3,635		184,222
Advanced operating system	3,102,095	58,847	-	3,160,942
Total accumulated depreciation	<u>26,825,559</u>	<u>2,822,183</u>	<u>58,307</u>	<u>29,589,435</u>
Total capital assets being depreciated, net	<u>19,597,127</u>	<u>(2,063,880)</u>	<u>87,460</u>	<u>17,445,787</u>
<b>TOTAL CAPITAL ASSETS, NET</b>	<b><u>\$ 21,777,948</u></b>	<b><u>\$ (2,063,880)</u></b>	<b><u>\$ 87,460</u></b>	<b><u>\$ 19,626,608</u></b>

## 5. CAPITAL ASSETS (Concluded)

Capital asset activity during the fiscal year ended September 30, 2006 is as follows:

	Balance October 1 2005	Additions	Deletions	Balance September 30 2006
Capital assets not being depreciated:				
Land and improvements	\$ 2,180,821	\$	\$	\$ 2,180,821
Capital assets being depreciated:				
Park and ride lot construction	1,486,007	8,001		1,494,008
Buildings	16,177,803			16,177,803
Vehicles and related equipment	21,752,750	8,894	1,062,413	20,699,231
Radio and telephone systems	200,836	2,758		203,594
Fare collection equipment	1,003,900			1,003,900
Maintenance equipment	500,920	4,485		505,405
Office equipment and furniture	1,472,259	853,324	183,996	2,141,587
Passenger shelters	762,217			762,217
Other	187,250			187,250
Advanced operating system	3,259,149	5,958	17,416	3,247,691
Total capital assets being depreciated	46,803,091	883,420	1,263,825	46,422,686
Less accumulated depreciation:				
Park and ride lot construction	442,572	76,108		518,680
Buildings	8,095,211	586,021		8,681,232
Vehicles and related equipment	11,088,152	1,706,825	962,764	11,832,213
Radio and telephone systems	147,880	13,332		161,212
Fare collection equipment	470,561	84,108		554,669
Maintenance equipment	301,861	43,500		345,361
Office equipment and furniture	984,536	219,944	183,996	1,020,484
Passenger shelters	367,037	61,989		429,026
Other	175,335	5,252		180,587
Advanced operating system	3,056,740	62,771	17,416	3,102,095
Total accumulated depreciation	25,129,885	2,859,850	1,164,176	26,825,559
Total capital assets being depreciated, net	21,673,206	(1,976,430)	99,649	19,597,127
<b>TOTAL CAPITAL ASSETS, NET</b>	<b>\$ 23,854,027</b>	<b>\$ (1,976,430)</b>	<b>\$ 99,649</b>	<b>\$ 21,777,948</b>

## 6. UNEARNED REVENUE

Unearned revenue represents amounts not earned, and consists of the following amounts:

	2007	2006
City of Ann Arbor - tax levy	\$ 7,234,659	\$ 6,798,684
City of Ann Arbor - inventory replacement tax	55,932	55,929
Federal Capital	90,708	0
State Capital	22,677	0
Unrealized Gain on Futures Account	133,144	0
Total	<u>\$ 7,537,120</u>	<u>\$ 6,854,613</u>

## 7. EMPLOYEES PENSION PLAN

The Authority provides pension benefits for substantially all of its employees through a defined contribution plan called the Ann Arbor Transportation Authority Employees' Pension Plan ("Plan"). In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate after one year of employment. The Authority's contributions for each employee and interest allocated to the employee's account are fully vested after five years of employment. Authority contributions for, and interest forfeited by, employees who leave employment before five years of service are used to reduce the Authority's current year contribution requirement. Employees contribute 3% of their gross earnings to the plan, which amounted to \$245,000 and \$251,000 for the years ended September 30, 2007 and 2006. The Authority's contribution to the plan is 9% of the employee's gross earnings less forfeitures and amounted to \$735,000 and \$755,000 for the years ended September 30, 2007 and 2006, respectively. Total payroll and covered payroll was approximately \$9,539,000 and \$8,162,000 for 2007 and \$9,449,000 and \$8,384,000 for 2006.

The Authority's Board of Directors administers the Plan, and also establishes contribution requirements and approves any Plan amendments.

## 8. CONTINGENCIES

The Authority is a defendant in several pending personal injury lawsuits. In the opinion of management, the outcome of this litigation and other matters will not significantly affect the Authority's financial position or results of its operations.

## 9. SUBCONTRACT SERVICE

The Authority subcontracts with a taxi cab company to provide certain services. The Authority pays the cab company fees based on the level of service provided, and the cab company collects and retains the passenger fares as an advance against the monthly billings. Operating revenues and operating expenses include approximately \$388,000 and \$367,000 of fares for these services in the years ended September 30, 2007 and 2006, respectively.

## 10. COST ALLOCATION PLANS

The Bus Transit Division of the Michigan Department of Transportation has approved the Authority's cost allocation plans for all material allocated expenses. These allocation plans have been used in the preparation of the financial statements.

## 11. INFORMATIONAL SUMMARY OF PROJECTED REVENUES, EXPENDITURES AND METHOD OF FINANCING CAPITAL PROJECTS

The Authority has prepared and made available for inspection the informational summary of projected revenues, expenses and capital project costs recommended in Section 15, subsection 1(h), Act 621, PA 1978, as amended, (MCLA 141.435) (MSA 5.3228 (35)) and as required in Act 51, 10e (1) (d) (vii).

## 12. POST EMPLOYMENT RETIREMENT BENEFITS OTHER THAN PENSIONS

### Plan Description

The Authority provides contributory and noncontributory medical benefits and basic life insurance coverage for eligible retirees and their spouses. The benefits for bargaining employees are specified by union contract while the Board of Directors establishes those for non-bargaining employees. Bargaining and non-bargaining employees who retire at or after age 62 with at least 15 years of service are eligible for medical coverage. Retirees have the option to select an alternate medical insurance carrier and be reimbursed for such coverage at a rate of up to 130% of that year's core HMO single person premium. Retiree's spouses are eligible to receive 50% of the monthly premium for the core HMO single person premium toward medical coverage. Bargaining and non-bargaining employees who retire at or after age 59-1/2 with at least 15 years of service are eligible for life insurance coverage in the amount of \$30,000 until age 64, \$20,000 from age 65 to 69, \$15,000 from age 70 to 74 and \$10,000 age 75 and over.

**Funding Policy and Annual OPEB Cost.** For this plan, contribution requirements of the plan members and the Authority are established and may be amended by union contract for bargaining employees and for non-bargaining employees by the Board of Directors. The Authority's annual other postemployment benefit (OPEB) cost (expense) for the plan is calculated based on the *annual required contribution of the employer (ARC)*, an amount actuarially determined in accordance with the parameters of GASB Statement 45 "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions." The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The Authority's annual OPEB cost for the current year and the related information for the plan is as follows:

	2007	2006
Contribution rates:		
Authority – Actuarially determined	4.3%	4.3%
Plan members	N/A	N/A
Annual required contribution	\$ 922,100	\$ 886,635
Interest on net OPEB obligation	-	-
Adjustment to annual required contribution	-	-
Annual OPEB cost	922,100	886,635
Contributions made	(57,068)	(37,704)
Increase in net OPEB obligation	865,032	848,931
Net OPEB obligation – beginning of year	848,931	-
<b>Net OPEB obligation – end of year</b>	<b><u>\$1,713,963</u></b>	<b><u>\$ 848,931</u></b>

The Authority's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the years ended September 30, 2007 and 2006, for the plan are as follows (this is second year for OPEB determination):

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
9/30/06	\$886,635	4.3%	\$ 848,931
9/30/07	\$922,100	6.2%	\$1,713,963

**Funded Status and Funding Progress.** The funded status of the plan as of September 30, 2007 and 2006, was as follows:

Actuarial accrued liabilities (a)	\$11,338,930	\$10,482,425
Actuarial value of plan assets (b)	_____	_____
<b>Unfunded actuarial accrued liability</b>		
<b>(funding excess) (a) – (b)</b>	<b><u>\$11,338,930</u></b>	<b><u>\$10,482,425</u></b>
Funded ratio (b) / (a)	0%	0%
Covered payroll (c)	\$ 9,539,000	\$ 9,449,000
Unfunded actuarial accrued liability		
(funding excess) as a percentage		
of covered payroll		
[(a) – (b)] / (c)	118.9%	110.9%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The required schedule of funding progress presented as required supplementary information provides multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial liability for benefits.

**Actuarial Methods and Assumptions.** Projections of benefits are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits in force at the valuation date and the pattern of sharing benefit costs between the Authority and the plan members to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Significant methods and assumptions were as follows:

Actuarial valuation date	9/30/06
Actuarial cost method	Entry Age
Amortization method	Level Percent of Payroll Open
Remaining amortization period	30 years
Asset valuation method	N/A
Actuarial assumptions:	
Investment rate of return	5.0%
Projected salary increases	N/A
Healthcare inflation rate	12% in 2007 Grading to 4% in 2016

### **13. TRANSFER OF CAPITAL ASSETS**

During 2007, the Authority received four buses, originally funded with Federal and State capital grants, from another transit agency in the State of Michigan. The net book value of the four buses the Authority received was \$43,300.

Also during 2007, the Authority received insurance proceeds of \$113,400 from an accident involving an Authority owned vehicle. The proceeds are recorded in unearned revenue (Federal \$90,700 and State \$22,700) until a replacement vehicle is acquired. The amount of (\$87,500) represents the net book value of the vehicle totaled in the accident.

During 2006, the Authority transferred ownership of two buses, originally funded with Federal and State capital grants, to another transit agency in the State of Michigan. This amount represents the net book value of the two buses (\$99,600).

### **14. COMMITMENTS**

At September 30, 2007, the Authority had outstanding commitments relating to the purchase of 19 hybrid diesel electric buses for \$10.4 million. Funding for the buses is through Federal capital grants (\$8.3 million), State capital grants (\$2.1 million).

### **15. SUBSEQUENT EVENT**

Subsequent to September 30, 2007, AATA reached an agreement on a new five-year collective bargaining agreement with the Transport Workers Union (TWU), Local 171, which represents bus drivers, mechanics, service workers and call takers at the Authority. The newly negotiated agreement was ratified by the Board of Directors at its February 20, 2008 meeting. The previous five-year contract had expired June 30, 2007, but Union employees continued working under the wages and conditions of the old contract while the two sides worked on a new agreement. The new collective bargaining agreement will be in effect from January 1, 2008, through December 31, 2012.

The agreement includes significant changes in the OPEB Plan. The Plan will be closed to all active employees, except those who would have qualified under the old OPEB Plan had they retired before an agreement was reached (those hired before January 1, 1993 who are at least 62 years of age) or those 30+ years of service regardless of age. These eligible employees have the irrevocable option to keep working and retire under the benefits under the old OPEB Plan or sign-up under the new Health Care Savings Plan (HCSP). The new HCSP is a defined contribution plan under Section 115 of the Internal Revenue Code in which the Authority will contribute into each participating employees account.

The HCSP will be front loaded for each employee based on months of service with the amounts put into a trust with the Municipal Employees' Retirement System of Michigan (MERS). The total amount needed to fund the front loading for active employees is between \$2,885,000 and \$3,734,000, depending on how many eligible employees exercise their option to stay in the existing OPEB Plan. This amount will be funded from unrestricted net assets. The amount necessary to fund the existing OPEB Plan will come from the existing post-retirement benefit obligation liability of \$1,714,000.

From 1991 to 2005, the Authority recorded an actuarial-determined liability for post-retirement health care benefits under the provisions of the Statement of Financial Accounting Standards number 106, "Employers Accounting for Postretirement Benefits Other Than Pensions." As of September 30, 2005, the accrued liability was \$3,769,000. However, the adoption of GASB Statement #45, effective October 1, 2005, eliminated this liability and transferred this amount to unrestricted net assets.

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# ANN ARBOR TRANSPORTATION AUTHORITY

## GASB STATEMENT 45 REQUIRED SUPPLEMENTARY INFORMATION

### SCHEDULE OF FUNDING PROGRESS FOR RETIRED EMPLOYEES HEALTHCARE PLAN

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Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a % of Covered Payroll
9/30/2006	\$ -	\$ 10,482,425	\$ 10,482,425	\$ -	\$ 9,449,000	110.90%
9/30/2006	-	11,338,930	11,338,930	-	9,539,000	118.90%



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## INDEPENDENT AUDITORS' REPORT ON ADDITIONAL INFORMATION

March 11, 2008

To the Members of the Board of Directors of  
Ann Arbor Transportation Authority  
Ann Arbor, Michigan

We have audited the basic financial statements of Ann Arbor Transportation Authority, as of and for the years ended September 30, 2007 and 2006, and have issued our report thereon dated March 11, 2008. Our audits were performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying additional information is presented for the purpose of additional analysis and is not a required part of the basic financial statements. This additional information on pages 23 – 29, 31 – 32, and 34 is the responsibility of the management of Ann Arbor Transportation Authority. Such information has been subjected to the auditing procedures applied in our audits of the basic financial statements, and, in our opinion, is fairly stated, in all material respects when considered in relation to the basic financial statements taken as a whole.

The schedules of vehicle hours and mileage data on pages 30 and 33 are the responsibility of the Authority's management. Such schedules have not been subjected to the auditing procedures applied in our audits of the basic financial statements and, accordingly, we express no opinion on them.

# ANN ARBOR TRANSPORTATION AUTHORITY

## ADDITIONAL INFORMATION - SCHEDULE OF REVENUES YEARS ENDED SEPTEMBER 30, 2007 AND 2006

	2007	2006
LOCAL OPERATING REVENUES:		
Passenger fares:		
Urban fixed route	\$ 1,571,152	\$ 1,535,688
Urban demand response	387,664	366,773
Nonurban demand response	342,187	271,215
Special Fares:		
Ann Arbor Chamber of Commerce - go!pass sales	249,445	244,990
Ann Arbor Public Schools	28,000	28,000
Eastern Michigan University	108,680	96,612
University of Michigan	824,620	778,637
Other special fares	5,955	6,079
TOTAL LOCAL OPERATING REVENUES	<u>\$ 3,517,703</u>	<u>\$ 3,327,994</u>
LOCAL NONOPERATING REVENUE:		
Purchase of service agreements:		
City of Ypsilanti	111,568	190,804
City of Ann Arbor - Downtown Development Authority	43,005	22,596
City of Ann Arbor (Local Match for LINK)	6,300	
Pittsfield Township	127,139	113,718
Superior Township	23,664	19,081
Ypsilanti Township	228,154	223,707
Total purchase of service agreements	<u>539,830</u>	<u>569,906</u>
City of Ann Arbor - tax levy	9,473,007	8,722,711
City of Ann Arbor - inventory replacement tax	74,574	74,574
Interest income	641,726	546,476
Advertising income	169,879	80,720
Other revenue	58,416	2,363
Gain (loss) on sale of equipment	(2,471)	5,675
Total local nonoperating revenue	<u>10,954,961</u>	<u>10,002,425</u>
Total local operating and nonoperating revenue	<u>14,472,664</u>	<u>13,330,419</u>
STATE OF MICHIGAN NONOPERATING REVENUE:		
Formula operating assistance - urban (Act 51)	6,606,545	6,446,053
Formula operating assistance - nonurban (Act 51)	302,656	243,319
Preventive maintenance		285,665
Prior years formula adjustments - urban and nonurban	85,617	(66,036)
Specialized services	90,415	78,261
Total state nonoperating revenue	<u>7,085,233</u>	<u>6,987,262</u>
FEDERAL NONOPERATING REVENUE:		
Unified planning program passed through SEMCOG (Section 5303)	49,440	49,440
Planning (Section 5307)	275,923	363,878
Planning (Section 5313) - passed through the State of Michigan		16,800
Federal operating assistance - nonurban (Section 5311) - passed through the State of Michigan	133,222	105,386
Capital cost of contracting (Section 5307)	160,000	160,000
Congestion Mitigation/Air Quality (Section 5307)		59,171
Preventive maintenance (Section 5307)	1,640,000	1,580,607
Rideshare program (STP - passed through the State of Michigan)	94,560	19,040
Rideshare program (CMAQ - passed through the State of Michigan)	9,385	22,790
Total federal nonoperating revenue	<u>2,362,530</u>	<u>2,377,112</u>
TOTAL NONOPERATING REVENUES	<u>\$ 20,402,724</u>	<u>\$ 19,366,799</u>

See Independent Auditors' Report on Additional Information

# ANN ARBOR TRANSPORTATION AUTHORITY

## ADDITIONAL INFORMATION - SCHEDULE OF OPERATING EXPENSES YEAR ENDED SEPTEMBER 30, 2007 WITH COMPARATIVE TOTALS FOR 2006

	Operations	Maintenance	General Administration	2007 Total	2006 Total
<b>LABOR:</b>					
Operators' salaries and wages	\$ 4,546,872			\$ 4,546,872	\$ 4,468,861
Other salaries and wages	619,142	\$ 1,537,839	\$ 1,091,730	3,248,711	3,243,969
<b>FRINGE BENEFITS</b>					
Fringe wages	1,187,543	348,455	206,955	1,742,953	1,735,880
Social security payroll taxes	482,829	142,404	92,678	717,911	714,073
Medical insurance	898,940	332,485	115,976	1,347,401	1,257,512
Pension	487,775	145,862	100,976	734,612	754,561
Post-retirement medical benefits	595,021	182,391	87,620	865,032	848,931
Other fringe benefits	458,237	121,096	39,990	619,324	526,778
<b>SERVICES:</b>					
Advertising fees					4,235
Other services		599,180	721,108	1,320,288	1,312,313
Auditing fees			21,865	21,865	18,640
<b>MATERIALS AND SUPPLIES CONSUMED:</b>					
Fuel and lubricants	1,851,578	6,845		1,858,423	1,760,837
Tires and tubes	75,653			75,653	71,435
Materials and supplies	7,172	904,024	356,212	1,267,408	1,286,264
<b>UTILITIES</b>					
			442,905	442,905	378,412
<b>CASUALTY AND LIABILITY COSTS:</b>					
Premiums for public liability and property damage insurance	279,578			279,578	299,814
Other casualty and liability costs			170,513	170,513	173,669
<b>PURCHASED TRANSPORTATION</b>					
	3,831,639			3,831,639	3,413,654
<b>MISCELLANEOUS EXPENSES:</b>					
Travel and meetings			37,025	37,025	37,073
Advertising and promotion media			22,212	22,212	42,834
Association dues & subscriptions			74,416	74,416	70,537
Other		10,000	112,955	122,955	118,671
<b>LEASES AND RENTALS</b>					
	38,737		6,311	45,048	17,339
<b>DEPRECIATION</b>					
	<u>1,800,059</u>	<u>41,249</u>	<u>980,875</u>	<u>2,822,183</u>	<u>2,859,850</u>
<b>TOTAL OPERATING EXPENSES</b>					
	<u>\$ 17,160,775</u>	<u>\$ 4,371,830</u>	<u>\$ 4,682,322</u>	<u>\$ 26,214,927</u>	<u>\$ 25,416,142</u>

See Independent Auditors' Report on Additional Information.

# ANN ARBOR TRANSPORTATION AUTHORITY

## ADDITIONAL INFORMATION

### SCHEDULE OF FEDERAL AND STATE INTEREST IN CAPITAL ASSETS

YEARS ENDED SEPTEMBER 30, 2007 AND 2006

	2007	2006
FEDERAL AND STATE INTEREST IN CAPITAL ASSETS:		
Balance, beginning of year	\$ 18,890,501	\$ 20,600,695
Contributions - Federal and State capital grants	687,784	985,808
Transfer of Federal and State interest in equipment to deferred revenue	(44,198)	
Transfer of Federal and State interest in equipment to another authority		(102,587)
Depreciation on assets purchased with Federal and State capital grants	<u>(2,561,825)</u>	<u>(2,593,415)</u>
Balance, end of year	<u>\$ 16,972,262</u>	<u>\$ 18,890,501</u>
Detail of Federal and State interest in capital assets at September 30		
Federal government	\$ 35,225,122	\$ 34,742,686
State of Michigan	<u>7,839,901</u>	<u>7,737,059</u>
Total	43,065,023	42,479,745
Less accumulated depreciation on contributed assets	<u>26,092,761</u>	<u>23,589,244</u>
Net Federal and State interest in capital assets	16,972,262	18,890,501
Net local interest in capital assets	<u>2,654,346</u>	<u>2,887,447</u>
Net assets invested in capital assets	<u>\$ 19,626,608</u>	<u>\$ 21,777,948</u>

See Independent Auditors' Report on Additional Information.

# ANN ARBOR TRANSPORTATION AUTHORITY

## ADDITIONAL INFORMATION - SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS YEAR ENDED SEPTEMBER 30, 2007

Federal and State Grantor/Pass Through Grantor/Program Title	Federal CFDA Number	Grant or Authorization Number	Program or Award Amount	Current Year's Expenditures				Prior Years' Expenditures	Amount Remaining
				Total	Federal	State	Local		
<b><u>U. S. Department of Transportation (Federal):</u></b>									
Direct assistance - Capital Grants:									
Capital (Section 5309) (Downtown Transit Center) (80/20)	20.500	MI90-0221	\$1,608,012	\$0	\$0	\$0	\$0	\$0	\$1,608,012
Capital (Section 5307) (FY 2004) (80/20)	20.507	MI90-X428	984,000	0	0	0	0	135,443	848,557
Capital (Section 5307) (FY 2005) (100/0)	20.507	MI90-X459	128,000	31,972	31,972	0	0	12,412	83,616
Capital (Section 5307) (FY 2006) (80/20 or 100/0)	20.507	MI90-X490	1,056,000	95,096	95,096	0	0	8,894	952,010
Capital (Section 5307) (FY 2007) (80/20 of 100/0)	20.507	MI90-X519	4,615,324	0	0	0	0	0	4,615,324
Capital (Section 5307) (Five Hybrid buses) (80/20)	20.507	MI90-X547	2,272,676	0	0	0	0	0	2,272,676
Capital (CMAQ - Six Hybrid buses) (80/20)	20.507	MI95-0002	2,682,573	437,373	437,373	0	0	0	2,245,200
Subtotal - Direct Federal Capital			\$13,346,585	\$564,441	\$564,441	\$0	\$0	\$156,749	\$12,625,395
Direct assistance - Operating grants:									
Unified Planning Program (Section 5303) (80/0)	20.505	7005	49,440	49,440	49,440	0	12,360	0	0
Planning (Section 5307) (100/0)	20.507	MI90-X490	240,000	196,123	196,123	0	0	43,877	0
Planning (Section 5307) (100/0)	20.507	MI90-X519	300,000	79,800	79,800	0	0	0	220,200
Capital cost of contracting (Section 5307) (100/0)	20.507	MI90-X490	160,000	160,000	160,000	0	0	0	0
Capital cost of contracting (Section 5307) (100/0)	20.507	MI90-X519	160,000	0	0	0	0	0	160,000
Preventive Maintenance (Section 5307) (100/0)	20.507	MI90-X380	1,255,145	74,538	74,538	0	0	1,180,607	0
Preventive Maintenance (Section 5307) (100/0)	20.507	MI90-X490	720,000	320,000	320,000	0	0	400,000	0
Preventive Maintenance (Section 5307) (100/0)	20.507	MI90-X519	1,840,000	1,245,462	1,245,462	0	0	0	594,538
Commuter Express Service (Section 5307) (100/0)	20.507	MI90-X408	495,000	0	0	0	0	0	495,000
Subtotal - Direct Federal Operating			5,219,585	2,125,363	2,125,363	0	12,360	1,624,484	1,469,738
Passed Through Michigan Department of Transportation:									
Congestion Mitigation/Air Quality (Rideshare)	20.507	2007-0605	215,000	9,385	9,385	0	0	0	205,615
Federal Highway Surface Transp. Program (Rideshare 80/0)	20.205	2006-0380	142,000	118,200	94,560	0	28,400	19,040	0
Nonurban Areas, Passed through MDOT (Section 5311)	20.509	2002-0007/Z2	133,222	133,222	133,222	0	0	0	0
Subtotal - Federal Passed Through MDOT Operating			490,222	260,807	237,167	0	28,400	19,040	205,615
<b><u>Michigan Department of Transportation (State):</u></b>									
Direct assistance - Capital grants:									
Capital (Downtown Transit Center)	N/A	2002-0007/Z19	402,003	0	0	0	0	0	402,003
Capital (FY 2004)	N/A	2002-0007/Z12	238,592	0	0	0	0	29,881	208,711
Capital (FY 2005)	N/A	2002-0007/Z17	0	0	0	0	0	0	0
Capital (FY 2006)	N/A	2002-0007/Z21	176,000	14,000	0	14,000	0	0	162,000
Capital (FY 2007)	N/A	2007-0162/Z5	911,831	0	0	0	0	0	911,831
Capital (Five Hybrid Buses)	N/A	2007-0162/Z4	568,169	0	0	0	0	0	568,169
Capital (Six Hybrid Buses)	N/A	2007-0162/Z3	670,644	109,343	0	109,343	0	0	561,301
Subtotal - Direct State Capital			2,967,239	123,343	0	123,343	0	29,881	2,814,015
Direct assistance - Operating grants:									
Operating assistance - Act 51 Urban	N/A	N/A	6,606,545	6,606,545	0	6,606,545	0	0	0
Operating assistance - Act 51 Non-Urban	N/A	N/A	302,656	302,656	0	302,656	0	0	0
Prior year formula adjustments	N/A	N/A	85,617	85,617	0	85,617	0	0	0
Specialized Services	N/A	2002-0007/Z18	78,862	601	0	601	0	78,261	0
Specialized Services	N/A	2007-0162/Z1	89,914	222,925	0	89,814	133,712	0	0
Subtotal - Direct State Operating			7,163,594	7,218,344	0	7,085,233	133,712	78,261	0
Transfer - Capital grants:									
Capital	20.507	2002-0070/Z2	100	100	80	20	0	0	0
Capital	20.507	2002-0070/Z5	43,161	43,161	34,529	8,632	0	0	0
Subtotal - Transfer			43,261	43,261	34,609	8,652	0	0	0
<b>TOTAL FEDERAL AND STATE EXPENDITURES</b>			<b>\$29,230,486</b>	<b>\$10,335,559</b>	<b>\$2,961,580</b>	<b>\$7,217,228</b>	<b>\$174,472</b>	<b>\$1,908,415</b>	<b>\$17,114,763</b>
STATE PASS-THROUGH:									
Specialized Services (FY 2006)		2002-0007/Z18	\$76,413	\$1,992	\$0	\$1,992	\$0	\$74,421	\$0
Specialized Services (FY 2007)		2007-0162/Z1	82,316	65,269	0	65,269	0	0	17,047
Total -State Pass-Through Special Services			\$158,729	\$67,261	\$0	\$67,261	\$0	\$74,421	\$17,047

See Independent Auditors' Report on Additional Information.

# ANN ARBOR TRANSPORTATION AUTHORITY

## ADDITIONAL INFORMATION - SCHEDULE OF OPERATING AND CONTRACT EXPENSES YEAR ENDED SEPTEMBER 30, 2007, WITH COMPARATIVE TOTALS FOR 2006

	Specialized Services 2002-0007/Z18 2007-0162/Z1	Rideshare Program 2006-0380	Rideshare Program 2007-0605	Non Urban Operations (Sec. 5311: 2007-0162/Z2)	Urban Operations		2007 Total	2006 Total
					Paratransit	Fixed Route		
TOTAL OPERATING EXPENSES:								
Labor		\$ 15,655	\$ 5,020	\$ 4,532	\$ 86,685	\$ 7,683,691	\$ 7,795,583	\$ 7,712,830
Fringe benefits		6,954	2,376	1,523	32,619	5,983,761	6,027,233	5,837,735
Services		95,382		875	1,093	1,244,803	1,342,153	1,335,188
Materials and supplies		3,164	1,989	6,337	38,022	3,151,972	3,201,484	3,118,536
Utilities						442,905	442,905	378,412
Casualty and liability costs				3,169	14,417	432,505	450,091	473,483
Purchased transportation	\$ 223,526			761,723	2,846,390		3,831,639	3,413,654
Other		1,805		5,501	3,561	245,741	256,608	269,115
Leases and rentals						45,048	45,048	17,339
Depreciation					160,345	2,661,838	2,822,183	2,859,850
TOTAL EXPENSES	<u>\$ 223,526</u>	<u>\$ 122,960</u>	<u>\$ 9,385</u>	<u>\$ 783,660</u>	<u>\$ 3,183,132</u>	<u>\$ 21,892,264</u>	<u>\$ 26,214,927</u>	<u>\$ 25,416,142</u>

See Independent Auditors' Report on Additional Information.

# ANN ARBOR TRANSPORTATION AUTHORITY

## ADDITIONAL INFORMATION - SCHEDULE OF URBAN REGULAR SERVICE REVENUES YEAR ENDED SEPTEMBER 30, 2007

Code	Description	Line-Haul	Demand Response	Total Urban
<b>401 :</b>	<b>Farebox Revenue</b>			
40100	Passenger Fares	\$ 1,571,152	\$ 387,664	\$ 1,958,816
40200	Contract Fares	1,216,700		1,216,700
<b>406 :</b>	<b>Auxiliary Transit Revenue</b>			
40615	Advertising	169,879		169,879
<b>407 :</b>	<b>NonTransit Revenue</b>			
40799	Gain (Loss) on Sale of Equipment	(2,471)		(2,471)
40799	Other Revenue	58,416		58,416
<b>408 :</b>	<b>Local Revenue</b>			
40800	Taxes Levied Directly for Transit Agency	8,238,216	1,309,365	9,547,581
<b>409 :</b>	<b>Local Revenue</b>			
40910	Local Operating Assistance	387,374	139,856	527,230
40999	Other Local - Local Match	12,600		12,600
<b>411 :</b>	<b>State Formula and Contracts</b>			
41101	State Operating Assistance	5,670,668	935,877	6,606,545
41101	State Specialized Services		90,415	90,415
411	Prior Year Formula Adjustments	102,578	(47)	102,531
<b>413 :</b>	<b>Federal Contracts</b>			
41311	Preventive Maintenance	1,640,000		1,640,000
41312	Capital Cost of Contracting		160,000	160,000
41399	Planning	275,923		275,923
41399	Unified Planning (5303)	49,440		49,440
41399	STP - Rideshare	94,560		94,560
41399	CMAQ - Rideshare	9,385		9,385
<b>414 :</b>	<b>Other Revenue</b>			
41400	Interest Revenue	641,726		641,726
	Other			
<b>Total</b>		<b>\$ 20,136,146</b>	<b>\$ 3,023,130</b>	<b>\$ 23,159,276</b>

See Independent Auditors' Report on Additional Information.



**ADDITIONAL INFORMATION - SCHEDULE OF URBAN REGULAR SERVICE EXPENSES**  
**YEAR ENDED SEPTEMBER 30, 2007**

See Independent Auditors' Report on Additional Information.

## ANN ARBOR TRANSPORTATION AUTHORITY

ADDITIONAL INFORMATION - URBAN REGULAR SERVICE NONFINANCIAL INFORMATION (Unaudited)  
YEAR ENDED SEPTEMBER 30, 2007

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### PUBLIC SERVICE - LINE HAUL

Code	Description	Weekday	Saturday	Sunday	Total
610	Vehicle Hours	168,206	9,074	5,192	182,472
611	Vehicle Miles	2,280,197	122,962	70,358	2,473,517

### PUBLIC SERVICE - DEMAND RESPONSE

Code	Description	Weekday	Saturday	Sunday	Total
610	Vehicle Hours	65,793	6,648	4,035	76,476
611	Vehicle Miles	1,070,132	103,323	62,821	1,236,276

See Independent Auditors' Report on Additional Information.

## ANN ARBOR TRANSPORTATION AUTHORITY

### ADDITIONAL INFORMATION - SCHEDULE OF NONURBAN REGULAR SERVICE REVENUES YEAR ENDED SEPTEMBER 30, 2007

Code	Description	Total Nonurban
<b>401 :</b>	<b>Farebox Revenue</b>	
40100	Passenger Fares	\$ 342,187
40200	Contract Fares	
<b>406 :</b>	<b>Auxiliary Transit Revenue</b>	
40615	Advertising	
<b>407 :</b>	<b>NonTransit Revenue</b>	
40799	Gain (Loss) on Sale of Equipment	
40799	Other Revenue	
<b>408 :</b>	<b>Local Revenue</b>	
40800	Taxes Levied Directly for Transit Agency	
<b>409 :</b>	<b>Local Revenue</b>	
40910	Local Operating Assistance	
40999	Other Local	
<b>411 :</b>	<b>State Formua and Contracts</b>	
41101	State Operating Assistance	302,656
411	Prior Year Formula Adjustments	(16,914)
<b>413 :</b>	<b>Federal Contracts</b>	
41301	Federal Section 5311	133,222
<b>414 :</b>	<b>Other Revenue</b>	
41400	Interest Revenue	
	Other	
<b>Total</b>		<b>\$ 761,151</b>

See Independent Auditors' Report on Additional Information.

# ANN ARBOR TRANSPORTATION AUTHORITY

## ADDITIONAL INFORMATION - SCHEDULE OF NONURBAN REGULAR SERVICE EXPENSES YEAR ENDED SEPTEMBER 30, 2007

Code	Description	DEMAND RESPONSE			Total
		Operations	Maintenance	General Administration	
<b>501: Labor</b>					
50102	Other Salaries & Wages			\$ 3,616	\$ 3,616
<b>502: Fringe Benefits</b>					
50200	Other Fringe Benefits			2,301	2,301
50201	Pensions			137	137
<b>503: Services</b>					
50305	Audit Costs			875	875
<b>504: Materials and Supplies</b>					
50499	Other Materials & Supplies	\$ 36	\$ 4,520	1,781	6,337
<b>506: Insurance</b>					
50699	Other Insurance			3,169	3,169
<b>508: Purchased Transportation</b>					
50800	Purchased Transportation	761,723			761,723
<b>509: Miscellaneous Expenses</b>					
50902	Travel, Meeting & Training			1,111	1,111
50999	Other Misc Expenses		222	4,169	4,391
<b>550: Ineligible Expenses</b>					
<b>570: Ineligible Expenses</b>					
				Total Expenses	\$ 783,660
				Total Ineligible Expenses	
				Total Eligible Expenses	<u>\$ 783,660</u>

See Independent Auditors' Report on Additional Information.

## ANN ARBOR TRANSPORTATION AUTHORITY

### ADDITIONAL INFORMATION - SCHEDULE OF NONURBAN REGULAR SERVICE NONFINANCIAL INFORMATION (Unaudited) YEAR ENDED SEPTEMBER 30, 2007

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#### PUBLIC SERVICE - DEMAND RESPONSE

Code	Description	Weekday	Saturday	Sunday	Total
610	Vehicle Hours	31,249			31,249
611	Vehicle Miles	354,160			354,160

See Independent Auditors' Report on Additional Information.

# ANN ARBOR TRANSPORTATION AUTHORITY

## ADDITIONAL INFORMATION - SCHEDULE OF OPERATING ASSISTANCE CALCULATION YEAR ENDED SEPTEMBER 30, 2007

	Urban		
	Line-Haul	Demand Response	Nonurban
Total Expenses	\$ 21,892,266	\$ 3,183,130	\$ 783,660
Less Ineligible Expenses:			
Federal and State Depreciation Expense	\$ 2,416,273	\$ 145,553	
Association Dues (Ineligible Portion)	4,039		
Other revenue	58,416		
Federal Preventive Maintenance	1,640,000		
Federal Planning	275,923		
Federal Unified Planning	61,800		
Federal Capital Cost of Contracting		160,000	
Total Ineligible Expenses	4,456,451	305,553	
<b>Total State Eligible Expenses</b>	17,435,815	2,877,577	783,660
Eligible Expenses for State Reimbursement	\$ 17,435,815	\$ 2,877,577	\$ 783,660
x Reimbursement Percentage	32.5231%	32.5231%	38.6208%
State Operating Assistance	\$ 5,670,668	\$ 935,877	\$ 302,656
Total Urban		\$ 6,606,545	

### Total Federal Eligible Expenses

Eligible Expenses for Federal Reimbursement	\$ 783,660
x Reimbursement Percentage	17.0000%
State Operating Assistance	\$ 133,222

See Independent Auditors' Report on Additional Information.

# **ANN ARBOR TRANSPORTATION AUTHORITY**

## **ADDITIONAL INFORMATION - NOTES TO SCHEDULE OF OPERATING ASSISTANCE CALCULATION YEAR ENDED SEPTEMBER 30, 2007**

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### **A. ITEMS REIMBURSED BY FEDERAL GRANTS**

Items reimbursed directly by Federal operating and capital grants, including Sections 5307 and 5311, are deducted from total expenses in arriving at the net eligible expense total.

### **B. ITEMS REIMBURSED BY STATE OF MICHIGAN GRANTS**

Items reimbursed by State of Michigan grants are deducted from total expenses in arriving at net eligible expenses total.

### **C. DEPRECIATION AND AMORTIZATION**

Depreciation and amortization incurred on assets funded with State and Federal grants is an ineligible expense pursuant to State of Michigan regulations. The depreciation expense included to be reimbursed with State Formula Assistance Funds only includes assets purchased with local funds where the useful life of the asset has been approved by the State of Michigan, Department of Transportation, Bureau of Passenger Transportation.

### **D. ASSOCIATION DUES**

The amounts disallowed represent a percentage of the annual dues paid to the American Public Transit Association and the Michigan Public Transit Association. It was determined that these organizations devote a portion of their efforts, 10.00% and 7.05%, respectively, to influencing legislation which is not eligible for reimbursement according to OMB Circular A-87, "Cost Principles for State, Local, and Indian Tribal Governments".

### **E. OTHER REVENUES AND ADVERTISING REVENUES**

Other income includes realized gains from the heating oil futures strategy used to reduce the volatility in the cost of diesel fuel. It also includes other miscellaneous income. These items are subtracted out as ineligible expenses.

Advertising revenues are earned from displaying advertising materials on Authority vehicles and are recorded net of expenses associated with equipping the vehicles with advertising media by a third party. Therefore, advertising revenues are not subtracted as ineligible expenses.

### **F. MILEAGE INFORMATION**

The methodology used for compiling mileage and other nonfinancial information used to allocate costs has been reviewed and found to be an adequate and reliable method.

See Independent Auditors' Report on Additional Information.

# **ANN ARBOR TRANSPORTATION AUTHORITY**

## **COMMENTS AND RECOMMENDATIONS –STATUTORY COMPLIANCE YEAR ENDED SEPTEMBER 30, 2007**

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**Our review of procedures for compliance with statutory requirements disclosed no findings.**



# ANN ARBOR TRANSPORTATION AUTHORITY

## SUPPLEMENTAL SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED SEPTEMBER 30, 2007

Federal Grantor/Pass Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass- Through Grantor's Number	Program or Award Amount	Current Year Expenditures
Transit Capital Grant Cluster - U.S. Department of Transportation - Federal Transit Administration: Federal Transit Capital and Operating Assistance Formula Grants (Section 5307):				
Capital, Planning and Operating Grant MI90-X380	20.507		\$ 3,988,000	\$ 74,538
Capital, Planning and Operating Grant MI90-X428	20.507		2,184,000	0
Capital, Planning and Operating Grant MI90-X459	20.507		2,608,000	31,972
Capital, Planning and Operating Grant MI90-X490	20.507		2,176,000	771,219
Capital, Planning and Operating Grant MI90-X519	20.507		6,915,324	1,325,262
Capital, Planning and Operating Grant MI90-X547	20.507		2,272,676	
Capital Grant (transferred from Milan Transit)	20.507	2002-0070/Z2	80	80
Capital Grant (transferred from Milan Transit)	20.507	2002-0070/Z5	34,529	34,529
Congestion Mitigation/Air Quality Grant MI90-X408	20.507		2,063,000	
Congestion Mitigation/Air Quality Grant MI95-0002	20.507		2,682,573	437,373
Congestion Mitigation/Air Quality Grants:				
Passed-Through Michigan Department of Transportation	20.507	2005-0091	42,800	
Passed-Through Michigan Department of Transportation	20.507	2007-0605	215,000	<u>9,385</u>
Subtotal - CFDA 20.507				2,684,358
U.S. Department of Transportation - Federal Highway Administration: Surface Transportation Program Passed-Through Michigan Department of Transportation	20.205	2006-0380	142,000	94,560
U.S. Department of Transportation - Federal Transit Administration (Section 5309): Federal Transit Capital Grant MI03-0221	20.500		1,608,012	0
Public Transportation for Nonurbanized Areas - Passed-Through Michigan Department of Transportation Operating Assistance (Section 5311):	20.509	2002-0007/Z2		133,222
Federal Transit Technical Studies Grant - Passed-Through Southeastern Michigan Council of Governments (SEMCOG) - Planning Grant (Section 5303) :	20.505	7005	49,440	<u>49,440</u>
Total Federal Expenditures of Federal Awards				<u>\$ 2,961,580</u>

### Notes to Schedule of Expenditures of Grant Awards

1 The above Schedule of Expenditures of Grant Awards presents the activity of all federal and state awards programs of Ann Arbor Transportation Authority. Federal awards received directly from federal agencies, as well as federal awards passed through other governmental agencies, are included on the Schedule.

The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations." Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

The reporting entity of Ann Arbor Transportation Authority is defined in Note 1 of the Authority's basic financial statements.

2 The accompanying Supplemental Schedule of Expenditures of Grant Awards is presented using the accrual basis of accounting, where revenues are recognized when the service is provided and expenses are recognized when they occur.



**REHMANN ROBSON**

*Certified Public Accountants*

*A member of* **THE REHMANN GROUP**



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

March 11, 2008

To the Members of the Board of Directors of  
Ann Arbor Transportation Authority  
Ann Arbor, Michigan

We have audited the basic financial statements of the Ann Arbor Transportation Authority (the "Authority") as of and for the years ended September 30, 2007 and 2006, and have issued our report thereon dated March 11, 2008. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Ann Arbor Transportation Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Authority's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Authority's financial statements that is more than inconsequential will not be prevented or detected by the Authority's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Authority's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. Our report did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Ann Arbor Transportation Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

We noted certain matters that we reported to management of *Ann Arbor Transportation Authority*, in a separate letter dated March 11, 2008.

This report is intended solely for the information and use of the audit committee, management, the Board of Directors, others within the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Lobson". The signature is written in a cursive, flowing style.



**REHMANN ROBSON**

*Certified Public Accountants*

A member of THE REHMANN GROUP



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO A MAJOR PROGRAM AND INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

March 11, 2008

To the Members of the Board of Directors of  
Ann Arbor Transportation Authority  
Ann Arbor, Michigan

**Compliance**

We have audited the compliance of the Ann Arbor Transportation Authority (the "Authority") with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement* that are applicable to its major federal program for the year ended September 30, 2007. The Authority's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Authority's compliance with those requirements.

In our opinion, the Authority complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended September 30, 2007.

## Internal Control Over Compliance

The management of the *Ann Arbor Transportation Authority* is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered *Ann Arbor Transportation Authority's* internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

A *control deficiency* in an Authority's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the Authority's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the Authority's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the Authority's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the audit committee, management, the Board of Directors, others within the Authority, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.

# ANN ARBOR TRANSPORTATION AUTHORITY

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS YEAR ENDED SEPTEMBER 30, 2007

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### PART I – SUMMARY OF AUDITORS' RESULTS

#### Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? \_\_\_\_\_ yes   X   no

Significant Deficiency (ies) identified  
not considered to be material weaknesses? \_\_\_\_\_ yes   X   none reported

Noncompliance material to financial statements  
noted? \_\_\_\_\_ yes   X   no

#### Federal Awards

Internal Control over major programs:

Material weakness(es) identified? \_\_\_\_\_ yes   X   no

Significant Deficiency (ies) identified  
not considered to be material weaknesses? \_\_\_\_\_ yes   X   none reported

Type of auditors' report issued on compliance  
for major programs: Unqualified

Any audit findings disclosed that are required  
to be reported in accordance with  
Circular A-133, Section 510(a)? \_\_\_\_\_ yes   X   no

Identification of major programs:

#### CFDA Number(s)

20.500 & 20.507

#### Name of Federal Program or Cluster

Federal Transit Cluster

# **ANN ARBOR TRANSPORTATION AUTHORITY**

## **SCHEDULE OF FINDINGS AND QUESTIONED COSTS YEAR ENDED SEPTEMBER 30, 2007**

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### **SECTION I - SUMMARY OF AUDITORS' RESULTS (Concluded)**

Dollar threshold used to distinguish  
between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee?   X   yes        no

### **PART II – FINANCIAL STATEMENT FINDINGS SECTION**

No matters were reportable.

### **PART III – FEDERAL AWARD FINDINGS AND QUESTIONED COST SECTION**

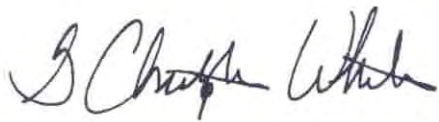
No matters were reportable.

# ANN ARBOR TRANSPORTATION AUTHORITY

## OMB CIRCULAR A-133 CORRECTIVE ACTION PLAN YEAR ENDED SEPTEMBER 30, 2007

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There are no reportable instances of noncompliance. Therefore, no corrective action plan is considered necessary.

A handwritten signature in dark ink, appearing to read "C. White", is written over a faint, larger signature.

Christopher White  
Manager of Service Development  
Compliance Officer

March 11, 2008



# **ANN ARBOR TRANSPORTATION AUTHORITY**

## **SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS YEAR ENDED SEPTEMBER 30, 2007**

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No reportable prior audit findings.



# REHMANN ROBSON

*Certified Public Accountants*

A member of THE REHMANN GROUP



March 11, 2008

To the Board of Directors of the  
Ann Arbor Transportation Authority  
Ann Arbor, Michigan

We have audited the financial statements of the major fund and the remaining fund information of the *Ann Arbor Transportation Authority* for the year ended September 30, 2007, and have issued our report thereon dated March 11, 2008. Professional standards require that we provide you with the following information related to our audit.

**Our Responsibility Under Auditing Standards Generally Accepted in the United States of America and OMB Circular A-133**

As stated in our engagement letter dated November 15, 2007, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

In planning and performing our audit, we considered the *Authority's* internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether the *Authority's* financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about *Authority's* compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on *Authority's* compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the *Authority's* compliance with those requirements.

### **Significant Accounting Policies**

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the *Authority* are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the *Authority* during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

### **Accounting Estimates**

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future. We evaluated the key factors and assumptions used to develop the useful lives of those assets in determining that they are reasonable in relation to the financial statements taken as a whole.
- Management's estimate of the liability for medical and life insurance benefits for eligible retirees are determined actuarially. We evaluated the qualifications of the actuaries and found them to be acceptable, and the actuarial report to be complete and consistent with prior years' calculations and within expectations.

### **Audit Adjustments**

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the *Authority's* financial reporting process (that is, cause future financial statements to be materially misstated). All adjusting entries were identified by the Authority in the closing process and recorded.

### **Disagreements with Management**

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### **Consultations with Other Independent Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Entity's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### **Issues Discussed Prior to Retention of Independent Auditors**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the *Authority's* auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

### **Difficulties Encountered in Performing the Audit**

We encountered no significant difficulties in dealing with management in performing and completing our audit.

The information contained in this letter and the attached memorandum is intended solely for the use of the audit committee, the governing body, and management of the *Authority* and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.

# **ANN ARBOR TRANSPORTATION AUTHORITY**

## **Comments and Recommendations**

**For the Year Ended September 30, 2007**

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In planning and performing our audit of the financial statements of Ann Arbor Transportation Authority as of and for the year ended September 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the Authority's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

### **Other Matters**

#### **Internal Accounting Control Comments**

The Accounts Receivable Clerk presently receives general cash and checks, prepares and makes the deposit, and enters the receipts into the general ledger system. In order to enhance internal controls in this area, we recommend that someone independent of the Accounts Receivable Clerk review the deposit slip against the daily receipt log.

The Controller is authorized to make investment transactions, as well as has access to the general ledger. In order to enhance the internal controls in this area, we recommend that the Investment account balances, including certificates of deposits, be reconciled to the general ledger by someone other than the controller on a monthly basis.

# ANN ARBOR TRANSPORTATION AUTHORITY

## Comments and Recommendations (Continued)

For the Year Ended September 30, 2007

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Presently, the inventory observation of all types of inventory is taken near the end of the fiscal year by Authority personnel, taking these personnel from their normal duties, and several days later adjustments are made to the related general ledger accounts. In order to streamline the process, the Authority should consider taking the physical inventory throughout the year and not all at one time by a method referred to as cycle counting, where certain segments of inventory are counted each month, with all segment physicals completed by year end. This tends to be less disruptive as compared to an annual physical inventory.

### **New Audit Standards Forthcoming**

We want to bring to your attention the significant changes to professional auditing standards. The new auditing standards, commonly known as the *Risk Suite* of standards, require that auditors perform additional procedures to assess risks relevant to financial statement reporting. Such risks include those from fraud, entity level internal control deficiencies, financial reporting system internal control deficiencies and business risks. The auditor must then directly link procedures performed to risks identified. You are likely aware of or have heard of the *Sarbanes Oxley Act* (“SOX”), which applies to public companies. Compliance with SOX was a major hurdle for most public companies. For several years, practitioners have believed that SOX-like rules would eventually become applicable to private companies, governmental entities and nonprofit organizations. The new standards effectively resemble components of SOX, and will also be challenging for auditors and their clients. There will clearly be an increased level of effort required to conduct a financial statement audit from both the auditor, and client personnel.

The Risk Suite of standards represents some of the most significant changes to our industry since GASB 34 was established. They continue the trend started by the fraud standards introduced a few years ago; the Risk Suite goes even further and impacts all aspects of the audit process.

Some of the key points from the new standards are as follows:

1. The new standards require an in depth understanding of entity level controls. The nature of these controls is that they are “top down”, starting with the governing board and top management levels (“tone at the top”; risk assessment; information and communication; and monitoring) and flowing through the entire organization. Accordingly, both the governing board and managers, both from finance and operations, will need to be actively involved in the audit process to enable the auditor to appropriately assess the effectiveness of such controls, and the related impact on planned audit procedures. This will likely take the form of additional inquiries, questionnaires, supporting policies and possibly flow charts to effectively demonstrate and document these entity level controls.

# **ANN ARBOR TRANSPORTATION AUTHORITY**

## **Comments and Recommendations (Concluded)**

**For the Year Ended September 30, 2007**

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2. Control activities are required to be documented, assessed and tested in greater detail. Control activities include approvals, authorizations, verifications, reconciliations, reviews of operating performance, security of assets and segregation of duties. Under previous standards, an auditor was only required to obtain an understanding of control activities; the new standards require an assessment of the effectiveness of control activities. As such, much like the documentation of entity level controls, this will likely take the form of additional inquiries, checklists, questionnaires, and possibly flowcharts, and just like in SOX, “walkthroughs” of certain key control activities must be performed.

The hours incurred in performing the audit under the new standards will increase from both your staff and our firm, with the most significant portion in the first year of implementation. Estimates reported from firms and organizations that have already implemented the new standards indicate anticipated increases of 10% to 30%. Again, as mentioned earlier, the majority of this increase will occur during the interim stages of the audit, well in advance of the scheduled fieldwork dates. The key to minimizing additional audit costs under these new standards, and to insure timely delivery of the audit report, is active involvement by the governing board and top managers in the audit process and thorough commitment to and preparation for the audit.

As always, we will work closely with you and your staff to tailor your audit to ensure that it is as efficient and effective as possible in light of these new standards. We will be meeting with you in person in the upcoming weeks to further discuss these changes and the impact they will have on your audit.

\* \* \* \* \*